

# GENERAL INFORMATION

## NEW FOR 1997

### EXTENSION FOR DOMESTIC DISCLOSURE SPREADSHEETS

For tax years beginning on or after July 1, 1997, domestic disclosure spreadsheets for water's edge filers can be filed up to six months after the return is filed. For tax years beginning before July 1, 1997, the domestic disclosure spreadsheets must be filed with the return.

### WHO MUST FILE FORM 41

A corporation or association that is transacting business in Idaho, is registered with the Idaho Secretary of State to do business in Idaho, or has income attributable to Idaho must file Form 41. This includes a(n):

- regular corporation subject to the income or franchise tax.
- nonprofit organization that receives unrelated business income, as defined in the Internal Revenue Code. If you do not receive unrelated business income, you are not required to file an Idaho corporate income tax return. However, if you file a federal Form 990, the Idaho State Tax Commission will accept a copy.
- corporation in business solely to perform contracts with the U.S. Department of Energy at the Idaho National Engineering and Environmental Laboratory. This corporation is subject to the Idaho franchise tax. See Franchise Tax, page 2.
- receiver, trustee in dissolution, trustee in bankruptcy, or assignee who possesses or holds title to all or substantially all of the property or business of a corporation, even if the property or business is not being operated.
- mutual savings bank that does not have capital stock represented by shares, a domestic building and loan association, a domestic savings and loan association, a federal savings and loan association with substantially all of the business confined to making loans to members, and a cooperative bank without capital stock operated for mutual purposes and without profit.
- limited liability company treated as a corporation for federal income tax purposes.
- common law trust treated as a corporation for federal income tax purposes.
- Real Estate Investment Trust (REIT)
- Regulated Investment Company (RIC)
- homeowners' association
- inactive or nameholder corporation
- nonproductive mining corporation

### WHO MUST FILE FORM 41S

A corporation filing as an S corporation for federal income tax purposes must file Form 41S if it:

- is transacting business in Idaho;
- is registered with the Idaho Secretary of State to do business in Idaho; or
- has one or more shareholders residing in Idaho.

Idaho accepts the federal approval of the S corporation election. Federal Form 2553 or a copy of the federal notice approving the election must be attached to your Idaho tax return for the first year you file Form 41S.

### TRANSACTIONING BUSINESS

Transacting business in Idaho is indicated by, but not limited to,

### DUE DATE FOR FARMER'S COOPERATIVES

The due date for filing returns for a farmer's cooperative has been extended to the ninth month following the close of its tax year. This now matches the federal filing date. For a calendar year filer this will be September 15. If you are filing a return for a farmer's cooperative, write "Farmer's Cooperative" on the top of Form 41 to help in processing the return.

the following activities:

- owning or leasing, as lessor or lessee, any property in Idaho;
- soliciting business in Idaho;
- being a member of a partnership with business in Idaho;
- any Idaho activity from which income is received, realized, or derived; or
- having an agent, such as a collector, repair person, delivery person, etc., acting on your behalf in Idaho.

### HOW TO FILE

A complete copy of the federal income tax return must be attached to the Idaho income tax return. If filing a Form 41S, all Schedules K-1 must be attached to the return or submitted with the return on microfiche. Failure to attach a complete copy of the federal return may cause the return to be delinquent.

The return must be signed by an authorized individual on behalf of the corporation.

Round the amounts on the return to the nearest whole dollar.

### WHERE TO FILE

Mail the return and payment to:

IDAHO STATE TAX COMMISSION  
PO BOX 56  
BOISE ID 83756-0201

### DUE DATE OF RETURN

Unless you are a farmer's cooperative, your return is due on or before the 15th day of the fourth month following the close of your tax year. For a calendar year filer, this is April 15.

If you are a farmer's cooperative, your return is due on or before the 15th day of the ninth month following the close of your tax year. For a calendar year filer, this is September 15.

If the last day for filing a return falls on a Saturday, Sunday or legal holiday, the return is timely if it is filed on the next work day.

### EXTENSION OF TIME TO FILE

If you cannot file your return by the due date, you must file for an extension of time on Form 41E. The extension must be filed on or before the due date of the tax return. You must pay the estimated tax due when you file the extension. The extension is for six months. No further extension is allowed. You will receive notice only if the extension is denied. The return may be filed at any time before the extension expires.

Form 41E is only an extension of time to file the return. There is no extension of time to pay the tax owed. For the extension to be valid, it must include at least 80% of the tax due or 100% of the total tax reported on the previous year's tax return, if a return was filed for that year. Interest is charged on any unpaid tax from the due date until the tax is paid. If the request for extension of time does not have sufficient payment attached, a 5% penalty will apply to any tax due. The minimum penalty is \$10.

### QUARTERLY ESTIMATED TAX PAYMENTS

A corporation must make estimated tax payments to the Idaho State Tax Commission if it is required to make federal estimated

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payments and the Idaho tax liability is estimated to be \$500 or more. Estimated taxes are filed on Form 41ES. The estimated payments are due on the 15th day of the 4th, 6th, 9th, and 12th months of the tax year. For a calendar year filer, this is the 15th of April, June, September, and December.

Estimated taxes are not required for the first year a corporation exists in Idaho. The corporation will be sent the necessary estimated payment forms.

## ELECTRONIC FUNDS TRANSFERS

Tax payments of \$100,000 or more must be paid by electronic funds transfer. If you are making an electronic funds transfer for the first time, contact Taxpayer Services at (208) 334-7660 for further information.

## PAYMENTS

Make your check or money order payable to the Idaho State Tax Commission and attach it to the tax return.

## MINIMUM TAX

The minimum tax of \$20 is required for each corporation that transacts business in Idaho, is registered with the Idaho Secretary of State to do business in Idaho, or is exercising its corporate franchise in Idaho. This includes an S corporation. For a unitary group of corporations, the \$20 minimum tax is required for each corporation in the unitary group that is required to file an Idaho income tax return, even though only one Idaho group return is filed.

The \$20 minimum tax is not required to be paid by the following:

- a nonproductive mining corporation
- a corporation not organized for profit that is not required to pay federal tax on unrelated business income

## FRANCHISE TAX

The franchise tax is imposed on a corporation for the privilege of exercising its corporate franchise in Idaho. This includes a corporation in business solely to perform contracts with the U. S. Department of Energy at the Idaho National Engineering and Environmental Laboratory. The tax is computed at 8% of Idaho taxable income. Corporations are not subject to both the franchise tax and the corporation tax.

## PERMANENT BUILDING FUND TAX

A corporation required to file an Idaho income tax return must pay the \$10 permanent building fund tax. This includes inactive or nameholder corporations and nonproductive mining corporations that are registered with the Idaho Secretary of State to do business in Idaho. The \$10 permanent building fund tax must be paid by each corporation in the unitary group that is required to file an Idaho income tax return, even though only one Idaho group return is filed.

An S corporation is required to pay the permanent building fund tax for each nonresident shareholder who meets the Idaho filing requirement but does not report his S corporation income on an Idaho individual return. If all shareholders file Idaho individual income tax returns, the S corporation is not required to pay the permanent building fund tax.

## PENALTIES AND INTEREST

Penalties may be imposed on the tax due as follows:

- 5% for negligence or disregard of rules
- 5% per month or fraction of a month to a maximum of 25% for failure to pay the tax due
- 50% for filing a false or fraudulent return
- 10% for substantial understatement of tax

The minimum penalty is \$10.

Interest applies on delinquent tax from the due date of the return until the tax is paid at the rate of 8% per year (rate effective 1-1-98 to 12-31-98).

## TAX PREPARER CONTACT BOX

A tax preparer contact box is located directly above the signature box. This box applies only if you paid a tax preparer to complete your return. If you check the box, you are authorizing the Tax Commission to contact your preparer to resolve any questions related to your return.

This authorization is valid for up to 120 days from the date the Tax Commission receives the return. If you want the Tax Commission to contact you rather than your preparer, leave the box blank.

## PERIOD/TAX YEAR COVERED BY RETURN

Use the 1997 form to file your tax return for calendar year 1997 or the fiscal year beginning in 1997.

## ACCOUNTING PERIOD

You must use the same accounting period as that used for federal tax purposes. A change to the annual accounting period must have prior approval from the Internal Revenue Service. Attach a copy of the federal approval on Form 1128, Application to Adopt, Change, or Retain a Tax Year, to your return.

## ACCOUNTING METHODS

You must use the same accounting method as that used for federal tax purposes. A change of accounting method must have prior approval from the Internal Revenue Service. Attach a copy of the federal approval on Form 3115, Application for Change in Accounting Method, to your return.

## AMENDED RETURNS

If you discover an error on your return after it is filed, do not file the same form again. Use a Form 41X, Amended Business Income Tax Return, to make the necessary corrections. If you amend your federal return, an amended Idaho income tax return must be filed. The statute of limitations for receiving a refund is three years from the due date of the return or the date the return was filed, whichever is later.

## FEDERAL AUDIT

If your federal taxable income or tax credits change because of a federal audit, you must send written notice to the Idaho State Tax Commission within 60 days of the final federal determination. You must include copies of all schedules supplied by the Internal Revenue Service. If you owe additional Idaho tax and do not send written notice within 60 days, a 5% negligence penalty will be imposed. If the final federal determination results in an Idaho refund and the statute of limitations is closed, you have one year from the date of the final determination to file for the refund.

## NET OPERATING LOSSES

A corporation incurs an Idaho net operating loss in a year when it is transacting business in Idaho and its Idaho taxable income is less than zero. A net operating loss incurred by a corporation during a tax year in which it was not transacting business in Idaho may not be subtracted.

The net operating loss generally must be carried back to the three preceding years. The carryback is limited to a maximum of \$100,000. Any remaining loss may be carried forward until used, but no longer than 15 years.

A corporation can elect to forego the carryback provisions and carry the loss forward up to 15 years. This election must be made before the due date, including extensions, of the loss year return. To make the election, check the box on line 37 of Form 41, indicating the election to forego the carryback period.

An S corporation is not allowed a deduction for a net operating loss carryback or carryforward. The loss must be passed through to the shareholder to be taken on his individual income tax return.

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## GENERAL INFORMATION FOR MULTISTATE/MULTINATIONAL TAXPAYERS AND UNITARY GROUPS

The following instructions apply only to corporations that are taxable in Idaho and another state or country (multistate/multinational corporations) or are part of a unitary group of corporations.

### ALLOCATION AND APPORTIONMENT OF INCOME

**Business Income.** Business income includes income from transactions or activity in the regular course of your trade or business. Business income also includes income from tangible or intangible property if the acquisition, management, or disposition of the property is an integral part of your regular trade or business operations. Business income may result even though the income was derived from an occasional or extraordinary transaction. All business income must be apportioned using the apportionment formula.

**Nonbusiness Income.** Nonbusiness income is all income other than business income and must be allocated, not apportioned. Allocation is the assignment of nonbusiness income to a specific state.

**Apportionment Formula.** The apportionment formula consists of three factors: property, payroll, and sales. These percentages are averaged to arrive at the Idaho apportionment factor. For most taxpayers, the sales factor is double weighted.

Electrical and telephone utilities must use a single-weighted sales factor. See the instructions for Schedule 42.

### EXCEPTIONS TO APPORTIONMENT FORMULA

If the allocation and apportionment provisions do not fairly represent your business activity in Idaho, one of the following exceptions may be used:

**Separate Accounting.** Separate accounting means allocating income and related expenses to the state where the activity occurred. Separate accounting may be used only with prior approval from the Idaho State Tax Commission. You must submit a written petition to the Tax Commission, Attention: Tax Policy, at least 30 days prior to the due date for filing the return not including extensions. You will be notified of the determination.

**Exclusion Of A Factor.** If any of the factors (property, payroll, or sales) do not apply to your business, use the remaining factors to compute the Idaho apportionment factor. To determine the average percentage, divide only by the number of factors used.

**Tax On Gross Sales/Alternative Tax.** A corporation that neither owns nor rents Idaho property nor incurs Idaho payroll may elect to pay tax to Idaho at the rate of 1% of gross sales if its Idaho sales are \$100,000 or less.

### MODIFIED FACTORS FOR CERTAIN INDUSTRIES

The following businesses must use special rules in computing the apportionment factors:

- Airlines
- Carriers of Freight or Passengers
- Construction Contractors
- Television and Radio Broadcasters
- Publishers

See the instructions for Schedule 42.

### UNITARY BUSINESS

A multistate business is unitary when the operations conducted in Idaho are integrated with, depend on or contribute to the business outside Idaho. Some of the tests used to determine if

a business is unitary include the following:

- The three unities test. The three elements of a unitary business include:
  1. unity of ownership;
  2. unity of operation as evidenced by central divisions for functions such as purchasing, advertising, accounting and management; and
  3. unity of use in its centralized executive force and centralized system of operations.
- The contribution or dependency test. The operation of the portion of the business done in the state depends on or contributes to the operation of the overall business.

If unity of ownership exists, the presence of any of the following factors creates a strong presumption that the activities of the taxpayer constitute a unitary business:

1. All activities of the group are in the same general line or type of business.
2. The activities of the group constitute different steps in a vertically structured enterprise.
3. The group is characterized by centralized management.

### COMBINED REPORTING METHOD

The combined report should not be confused with a federal consolidated return. A combined report refers to the computational method to determine the amount of business income to be reported to Idaho by each member of a unitary group and not whether the unitary group files a group return or several returns. This method uses the apportionment factor to measure the economic activities of the taxpayer in a state. Use of the combined report does not disregard the separate corporate identities of the members of the unitary group.

The combined report may be reflected on one group return filed by the unitary group or on two or more returns, one for each member which has an Idaho filing requirement. If a group return is filed for the unitary group, the following information must be disclosed for each corporation which has an Idaho income tax filing requirement:

- Idaho property, payroll, and sales amounts;
- Idaho tax computation;
- Idaho net operating loss calculation; and
- Idaho tax credits and limitations.

The combined reporting method is required if two or more corporations are engaged in a unitary business, and more than 50% of the voting stock is owned directly or indirectly by a common owner or owners. Additional information will be provided upon request. Call (208) 334-7660 to order the Guide to Combined Reporting.

A change from the use of the combined reporting method is allowed only with prior consent from the Idaho State Tax Commission. You must submit a written petition to the Tax Commission, Attention: Tax Policy, at least 30 days prior to the due date of the return not including extensions. You will be notified of the determination.

An S corporation cannot use the combined reporting method.

### WORLDWIDE FILING

If a taxpayer is part of a unitary group, the combined report must include the income or loss and apportionment factor attributes of all unitary affiliates with more than 50% common ownership. This includes corporations incorporated outside the United States.

### WATER'S EDGE ELECTION

The water's edge election is only applicable to a unitary business that has ownership in at least one foreign affiliate. The business may elect to exclude the foreign affiliate from the com-

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bined return and be taxed only on a percentage of any dividends paid from the foreign affiliate.

Only the income and apportionment factors of unitary corporations filing a federal income tax return or included in a federal consolidated return are taken into account in determining Idaho taxable income. Corporations that file elections under Section 936 (Puerto Rico and Possession Tax Credit) of the Internal Revenue Code are not taken into account in determining Idaho taxable income.

The water's edge election must be made on the return as originally filed. The election cannot be made on an amended return. If a taxpayer wishes to change from the water's edge method to the worldwide filing method, permission must be requested from the Idaho State Tax Commission.

For taxable years beginning before July 1, 1997, the domestic disclosure spreadsheet must be filed with the Form 41. For taxable years beginning on or after July 1, 1997, the domestic disclosure spreadsheet must be filed within six months after filing the Form 41. A unitary business may elect to forego the filing of the spreadsheet; however, the 85% exclusion of dividends from foreign corporations and from Section 936 corporations must be reduced to 80%. The election to forego filing the spreadsheet is a yearly decision made by checking the "Yes" box on line 10b, Form 41.

The Idaho Water's Edge Election and Consent Form, as well as the domestic disclosure spreadsheet and instructions, will be

provided upon request. Call (208) 334-7573 and ask for the Water's Edge Election and Consent Form, Form 14, or send your request to: Idaho State Tax Commission, Attention ITA, PO Box 36, Boise, ID. 83722-2220.

An S corporation cannot make a water's edge election.

### **MULTISTATE CORPORATE MEMBERS OF PARTNERSHIPS**

If a corporation required to file an Idaho income tax return is a member of an operating partnership or joint venture, the corporation must apportion its share of the partnership's business income or loss along with all other net business income or loss of the corporation. The corporation's share of the partnership's property, payroll and sales is determined in the same proportion as the partnership's income is distributed and must be included in the corporation's apportionment computation.

### **NET OPERATING LOSSES**

Each affiliated corporation included in a unitary group return must compute its own share of the combined net operating loss apportioned to Idaho and apply its loss to its apportioned income.

The provisions of Internal Revenue Code, Sections 381, Carryovers In Certain Corporate Acquisitions, and 382, Limitation On Net Operating Loss Carryforwards and Certain Built-In Losses Following Ownership Changes, apply in computing the Idaho net operating loss. The Section 382 loss limitation is limited by the pre-merger loss corporation's Idaho apportionment factor for the last tax year before the merger.

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## FORM 41S SPECIFIC INSTRUCTIONS

Instructions are for lines not fully explained on the form.  
General information instructions beginning on page 1 also apply to this form.

The S corporation must provide a schedule to each shareholder which shows all Idaho income, deductions, apportionment factors, tax credits and tax credit recapture that is reportable by the shareholder. A copy of this schedule and the federal Schedule K-1, Form 1120S must be attached to the Idaho Form 41S and be furnished to each shareholder.

### HEADING

File the 1997 return for calendar year 1997 or a fiscal year that begins in 1997. For a fiscal year, fill in the tax year space at the top of the form.

If you received a preaddressed label that is in error, correct the label and place it over the name and address area of the return.

If you did not receive a preaddressed label, type or print the business/company name, address, and federal employer identification number in the space provided.

### QUESTIONS 1-10

Mark the appropriate box and provide the requested information. Each question must be answered or the return will be considered incomplete. Incomplete returns will cause processing delays.

#### Question 1 NAME CHANGE

If the corporation changed its name since it last filed, check the "Yes" box and enter the name the way it appeared on the last return filed.

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## Question 2 FEDERAL AUDIT

If a federal audit was finalized during the tax year, enter the most recent tax year covered in the audit.

## Question 3 INACTIVE OR NAMEHOLDER CORPORATIONS

A corporation that is authorized to transact business in Idaho but has no business activity and no income attributable to Idaho would check the "Yes" box.

## Question 4 QUARTERLY ESTIMATED PAYMENTS

- Check the "No" box if the corporation was not required to make federal quarterly estimated payments in 1997.
- Check the "Yes" box if your quarterly estimated payments were based on annualized amounts.

## Question 5 FINAL RETURN

If this is the corporation's final return for Idaho, check the box that explains the reason and enter the date the event occurred. Enter the new federal employer identification number (EIN) if the corporation has been merged or reorganized.

## Question 6 NEXT YEAR'S FORMS

If the corporation does not need income tax forms mailed to it next year, check the "No" box.

## Question 7 ELECTRICAL OR TELEPHONE UTILITY

If this return is for an electrical or telephone utility, check the "Yes" box. Electrical and telephone utilities apportion business income using a different apportionment factor calculation.

## Question 8 OWNERSHIP CHANGE

Check the "Yes" box if a shareholder terminated his interest in the corporation or if a new shareholder acquired an interest in the corporation.

## Question 9 IDAHO INVESTMENT TAX CREDIT

Enter the amount shown on line 2, Part I, Form 49. This is the Idaho investment tax credit the corporation earned and passed through to the shareholders.

## Question 10 RECAPTURE OF IDAHO INVESTMENT TAX CREDIT

Enter the amount shown on line 13, Part III, Form 49R. This is the amount of recapture of Idaho investment tax credit the corporation passed through to the shareholders.

## INCOME

### LINE 14 PORTFOLIO INCOME

Enter your net portfolio income or loss from Form 1120S, Schedule K, lines 4a through 4f.

### LINE 15 OTHER INCOME

Enter your other income from Form 1120S, Schedule K, lines 5 and 6.

### LINE 16 DEDUCTIONS

Enter your deductions from Form 1120S, Schedule K, lines 7 through 10 plus the lesser of line 11a or 11b(1) less 11b(2).

## IDAHO ADDITIONS

### LINE 18 INTEREST AND DIVIDENDS NOT TAXABLE UNDER INTERNAL REVENUE CODE

Enter the interest and dividends net of applicable amortization received or accrued from obligations of any state or political subdivision excluded from federal income under the provisions of the Internal Revenue Code. Attach a schedule.

### LINE 19 STATE, MUNICIPAL OR LOCAL TAXES

Enter the total of all state, municipal and local taxes measured by net income which have been paid or accrued during the tax year less any refunds which have been included in federal income. Attach a schedule of all taxes deducted on the federal return.

## LINE 20 OTHER ADDITIONS

Enter any miscellaneous Idaho additions. Attach a schedule identifying each miscellaneous addition.

## IDAHO SUBTRACTIONS

### LINE 22 INTEREST FROM IDAHO MUNICIPAL SECURITIES

Enter interest received from securities issued by the State of Idaho and its political subdivisions, if included on line 18.

### LINE 23 INTEREST ON U.S. OBLIGATIONS

Interest income you received from obligations of the U.S. Government is not subject to the Idaho tax. Deduct any U.S. Government interest included in federal income. Examples of obligations of the U.S. Government include but are not limited to:

- Banks for Cooperatives
- Federal Farm Credit Banks
- Federal Financing Bank
- Federal Homeowners Loan Bank
- Federal Intermediate Credit Bank
- Federal Land Bank
- Guam
- Puerto Rico
- Student Loan Marketing Association
- Tennessee Valley Authority Bonds
- Territory of Alaska
- Territory of Hawaii
- Territory of Samoa
- U.S. Series EE and HH Bonds
- U.S. Treasury Bills and Notes
- Virgin Islands

Interest income received from the Federal National Mortgage Association (FNMA) and the Government National Mortgage Association (GNMA) is not paid by the U.S. Government and is subject to Idaho income tax.

### LINE 24 INTEREST EXPENSE OFFSET

Enter the amount from line 8 of the following computation. This is the interest expense offset.

- Interest expense (total interest expense deducted in determining federal taxable income, plus interest disallowed pursuant to Section 63-3022, Idaho Code, and interest expense from a pass-through entity) .....
- Average adjusted basis (as defined in Treas. Reg. 1.265-2) of tax-exempt obligations. This is generally calculated on a monthly basis. ....
- Average adjusted basis of total assets as defined in Treas. Reg. 1.265-2. This is generally determined at the beginning and end of the taxpayer's taxable year. ....
- Divide line 2 by line 3. .... %
- Total tax-exempt income (interest on qualifying obligations of the United States and interest on qualifying obligations of the State of Idaho, its cities, and political subdivisions) .....
- Total income (amount reported on the federal return(s) total income from pass-through entities) .....
- Divide line 5 by line 6. .... %
- Multiply line 1 by the lesser of line 4 or 7. ....

### LINE 26 TECHNOLOGICAL EQUIPMENT DONATION

Enter the fair market value of technological equipment donated to a public elementary or secondary school, public or private college or university, public library, or library district located in Idaho. Items that qualify for this deduction are limited to computers, computer software, and scientific equipment or apparatus manufactured within five years of the date of donation. The amount deducted may not reduce Idaho taxable income to less than zero. Any unused deduction cannot be carried to another year.

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## LINE 27 FEDERAL TAX CREDIT FOR GASOHOL

Enter the amount included in federal income for the federal tax credit for sales and use of alcohol blended fuels (gasohol).

## LINE 28 ALLOCATED INCOME

Enter the amount of nonbusiness income. Attach a schedule detailing the source of income and an explanation of why the income was classified as nonbusiness.

## LINE 29 NONBUSINESS EXPENSE OFFSET

Enter the amount from line 9 of the following computation. This is the nonbusiness expense offset.

1. Interest expense (federal Form 1120S) .....
2. Interest expense attributable to tax-exempt income (line 24) .....
3. Balance of interest expense subject to offset (subtract line 2 from line 1) .....
4. Total dividend and interest income classified as business income (subject to apportionment) ..
5. Subtract line 4 from line 3 .....
6. Total dividend and interest income classified as nonbusiness income (not subject to apportionment). Do not include tax-exempt interest. ....
7. Enter the lesser of line 5 or line 6. ....
8. Other expenses directly related to the production of nonbusiness income .....
9. Add lines 7 and 8. ....

## LINE 34 APPORTIONMENT FACTOR

If all the activity is in Idaho, enter 100%. If the S corporation has multistate/multinational operations, enter the apportionment factor from Schedule 42, Part I, line 21. Attach Schedule 42.

## LINE 36 INCOME ALLOCATED TO IDAHO

Enter the amount of nonbusiness income allocated to Idaho less the amount of interest offset computed on line 29 which applies to this income. Attach necessary schedules.

## LINE 37 COMPENSATION OF NONRESIDENT SHAREHOLDERS

The Idaho source wages, salaries and other compensation of nonresident officers, shareholders, and directors may be reported and taxed by the S corporation. If an election is not made and the nonresident officer, director or shareholder who meets the Idaho filing requirement does not file an Idaho individual income tax return or does not pay the tax due, the S corporation is required to report the income and be taxed at the corporate rate.

## LINE 38 INCOME REPORTED ON SHAREHOLDERS' RETURNS

Resident shareholders must report S corporation income on their Idaho individual income tax returns. Determine the amounts from lines 35 and 36 that are reportable by the resident shareholders.

Nonresident shareholders may report S corporation income on their nonresident individual income tax returns. Determine the amounts from lines 35 and 36 that are reported by the nonresident shareholders.

## CREDITS

Credits earned by the S corporation are passed through to each shareholder based on that shareholder's pro rata share of S corporation income or loss. When an S corporation has a fiscal year end other than that of the shareholder, the credit passes through in the same period that the S corporation income or loss is required to be reported by the shareholder for federal tax purposes.

The S corporation must prepare and distribute to each shareholder a schedule that shows all Idaho income, deductions and tax credits that must be reported on the shareholder's individual Idaho income tax return. Each shareholder uses this information to determine the amount of Idaho credit, credit recapture

and credit carryover to be reported on his individual income tax return. Copies of these schedules must be attached to the Idaho S Corporation Income Tax Return for the year in which the credit is earned.

If a nonresident shareholder's share of the income is taxed on the S corporation's return, the tax may be offset by the credit allowed to that shareholder.

## LINE 41 CREDIT FOR CONTRIBUTIONS TO EDUCATIONAL ENTITIES

If the S corporation donated cash or goods to a qualified educational entity, it may claim a tax credit. The credit is limited to the smallest of:

- one-half of the amount donated,
- 10% of the tax on line 40, or
- \$500

A qualified educational entity includes:

- a nonprofit corporation, fund, foundation, trust, or association organized and operated exclusively for the benefit of Idaho colleges and universities
- a nonprofit, private or public Idaho school (elementary, secondary or higher education) or its foundation
- Idaho education public broadcast system foundations
- the Idaho State Historical Society or its foundation
- an Idaho public library or its foundation
- an Idaho library district or its foundation
- an Idaho public or private nonprofit museum

## LINE 42 IDAHO INVESTMENT TAX CREDIT

If you acquire an asset for use in your business, you may have earned an investment tax credit.

Report the allowed credit computed on line 10, Part II, Form 49. Attach Form 49.

## LINE 43 CREDIT FOR CONTRIBUTIONS TO YOUTH AND REHABILITATION FACILITIES

If the S corporation donated cash or goods to a qualified youth or rehabilitation facility, it may claim a tax credit. The credit is limited to the smallest of:

- one-half of the amount donated,
- 10% of the tax on line 40, or
- \$500

The following are qualified youth or rehabilitation facilities:

- Anchor House
- The Arc, Inc., Boise
- Dawn Enterprises, Inc., Blackfoot
- Development Workshop, Inc., Idaho Falls
- High Reachers, Inc., Mountain Home
- Idaho Elks Rehabilitation Hospital, Inc., Boise
- Idaho Youth Ranch
- Magic Valley Rehabilitation Services, Inc., Twin Falls
- New Day Products, Inc., Pocatello
- Northwest (North Idaho) Children's Home
- Opportunities Unlimited, Inc., Lewiston
- Panhandle Special Needs, Inc., Sandpoint
- Transitional Employment Services for the Handicapped, Coeur d'Alene
- Western Idaho Training Co., Inc., Caldwell
- Winchester Occupational Workshop, Winchester

## LINE 44 NEW JOBS TAX CREDIT CARRYOVER

If you have new jobs tax credit carryover from the previous year, you may be able to claim it. Complete and attach Idaho Form 55.

## LINE 45 CREDIT FOR PRODUCTION EQUIPMENT USING POST-CONSUMER WASTE

If you purchased equipment that manufactures a product from post-consumer or post-industrial waste, you may be entitled to a tax credit. The credit is 20% of your cost to purchase qualified equipment.

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Qualified equipment is machinery or equipment in Idaho with a useful life of three years or more. In addition, 90% of the equipment's production must result in products utilizing post-consumer or post-industrial waste.

The credit claimed in a tax year is limited to the lesser of \$30,000 or your tax liability. You may carry forward the unused portion of the credit up to seven years.

Product is any manufactured material that is composed of at least 50% post-consumer or post-industrial waste and offered for sale. Product does not include shredded material unless it is incorporated directly into the manufacturing process.

Post-consumer waste or post-industrial waste includes only glass, paper, or plastic that have been, or would have been, disposed of as solid waste. It does not include radioactive or hazardous waste.

Attach a schedule showing your computations, listing the qualified equipment, identifying the post-consumer or post-industrial waste products, and identifying the newly manufactured products.

## OTHER TAXES

### LINE 48 PERMANENT BUILDING FUND TAX

S corporations that report taxable income on line 39 are required to pay the \$10 permanent building fund tax for each nonresident shareholder who is required to file, but does not file, an Idaho individual income tax return. A nonresident shareholder is required to file if his share of the S corporation's Idaho gross income is more than \$2,500.

### LINE 49 SPECIAL FUELS TAX DUE

If you buy special fuels (diesel, propane, natural gas) without paying the special fuels tax and later use this fuel in licensed vehicles or in aircraft, special fuels tax is due. Enter the amount from line 10, Form 75. Attach Form 75.

### LINE 50 RECAPTURE OF INVESTMENT TAX CREDIT

If you have claimed an investment tax credit on property that ceases to qualify before the end of its estimated useful life, you must recompute the investment tax credit. The difference between the original credit and the recomputed credit must be recaptured. Attach Form 49R.

### LINE 51 IDAHO TAX

A minimum tax of \$20 is required. If the S corporation owes federal tax on excess net passive income, capital gains, or built-in gains, follow the instructions below:

- The Idaho tax on excess net passive income is computed by multiplying 8% by the lesser of Idaho apportioned excess net passive income or Idaho apportioned taxable income. See federal Form 1120S instructions. Attach a copy of the computations.
- The Idaho tax on capital gains or built-in gains is computed by multiplying 8% by the Idaho apportioned net capital gain or Idaho apportioned net recognized built-in gain. See federal Form 1120S, Schedule D instructions. Attach a copy of the computations.
- If the corporation was previously a C corporation with ITC carryover, the credit may be used to offset up to 45% of the tax.

Enter the total Idaho tax on excess net passive income, capital gains, and built-in gains less applicable investment tax credit carryover on line 51. The total tax before investment tax credit cannot be less than \$20.

### LINE 53 UNDERPAYMENT INTEREST

Use Part I, Form 41ESR, Underpayment of Estimated Tax by Corporations, to determine if there is an underpayment of any quarterly estimated payments. Enter the amount of underpayment interest from Part II, Form 41ESR. Attach Form 41ESR.

## PAYMENTS AND OTHER CREDITS

### LINE 55 ESTIMATED TAX PAID

Enter the amount of payment(s) made with Form 41E, Application for a Six-Month Extension to File Idaho Business Income Tax Return.

### LINE 56 QUARTERLY ESTIMATED TAX PAYMENTS

Enter the total amount of quarterly estimated tax payments made during the tax year on Forms 41ES, Payment of Estimated Idaho Corporation Income Tax and the amount applied from your 1996 return.

### LINE 57 SPECIAL FUELS TAX REFUND

The special fuels (diesel, propane, natural gas) tax refund is available to those who use the fuel for heating or in off-highway equipment and have paid the tax on the special fuels purchased. Enter the amount from line 5, Form 75. Attach Form 75.

### LINE 58 GASOLINE TAX REFUND

The gasoline tax refund is available to those who buy and use gasoline in off-highway equipment or auxiliary engines. Enter the amount from line 4, Form 75. Attach Form 75.

## REFUND OR PAYMENT DUE

### LINE 61 PENALTY AND INTEREST

**Penalty:** If the S corporation files a return after the due date, a 5% penalty for each month (or fraction of a month), up to a maximum of 25%, will apply to the tax due beyond the due date. If the S corporation received an extension of time to file its return and did not include a payment of at least 80% of the tax due or 100% of the total tax reported last year, a 5% penalty will apply to the tax due. The minimum penalty is \$10.

**Interest:** Interest is charged on the amount of tax due, line 60, from the due date until paid. The rate for 1998 is 8%.

### LINE 64 REFUND

You have the option of receiving all or a portion of the overpayment listed on line 63 as a refund, or applying all or a portion of the overpayment to your 1998 estimated tax. Enter the amount you wish to receive as a refund on this line. If you enter the total amount from line 63, you must enter zero on line 65.

### LINE 65 ESTIMATED TAX

You have the option of applying all or a portion of the overpayment listed on line 63 as a credit against your 1998 estimated tax. The amount you list on this line plus the amount on line 64 must equal the overpayment listed on line 63. If you listed the total overpayment as the amount you want refunded to you on line 64, you must enter zero on this line.